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The Perils of the New Economic Nationalism

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AN examination of any of the current discussions of the economic questions facing the United States shows an unmistakable tendency to fall back upon the terminology, the methods of approach and habits of thought of the nineteenth century and the earlier years of the twentieth. This is due in part to the fact that our economic organization is one that was adapted to the type of activity which was dominant during that period, in part to the stimulus given all nationalistic movements during the war and in part, probably, to force of habit. An analysis of some of the leading tendencies of the nineteenth century is accordingly necessary to an understanding of the present.

While admitting the importance of other than economic influences in precipitating the great war recently ended, the strictly economic aspects may properly be emphasized. Ignoring, then, geographical, racial and political influences, what were the strictly economic ones?

ECONOMIC ASPECTS OF THE WAR

The Industrial, or perhaps we should say Economic, Revolution brought about changes that are well known, but whose significance is apt to be overlooked, merely because the facts are so frequently reiterated. In the middle of the eighteenth century England, France and Germany were still chiefly agricultural countries. In England much land was still in the hands of small holders. In France, most of the peasants were legally free, and a considerable proportion were land-holders, but there were many oppressive restraints on the person of the laborer

and on the land. Germany was more agricultural than was France, but the methods she employed were antiquated, and the country as a whole poor. Of the three countries, England had most fully developed manufacturing, but the domestic system was still prevalent. English commerce, too, was much more advanced than that of other countries in its volume, its geographical range and its variety. It developed five- or six-fold in the eighteenth century, and was largely in staple goods. French trade was small in volume, was largely European and was chiefly in fancy goods. The trade of Germany was limited and sluggish, greatly hampered by tariffs and tolls.

The Economic Revolution, which occurred in the latter part of the eighteenth century and continued well into the nineteenth century, appeared in somewhat different forms and degrees and at different times in the various countries. Investments in agricultural operations became larger, machinery and technique were improved, enclosures increased, and land was concentrated in larger holdings in England. In France, serfdom was abolished, land laws were relaxed, estates broken up, small holdings developed, and agricultural machinery and scientific methods introduced. In Germany, the peasants were released from serfdom: the size of land holdings decreased in the southwest of the country, becoming larger in the northwest, and quite large in the northeast.

Changes in manufacturing were much the same in all of the countries we are considering. The factory system was introduced, and iron and coal became more important. Urban pop-

ulation grew more rapidly than that of the country. There appeared differences of opinion between employers and laborers, while conditions among the latter became in many instances deplorable. Along with this was a great increase in volume of output which made its way throughout the world over improved transportation routes. Local highways and canals grew in number and size; large waterways, like the Suez Canal and later the Panama Canal, were constructed; steam power, the telegraph and the telephone came into extensive use. With this development of trade, certain changes occurred in the tariff policies of the leading countries. During the period from 1846 to 1860, England definitely shifted to the free-trade basis. For a time the other countries of Europe followed in the same direction, but soon there came a reaction under the leadership of Germany, and the European continent embarked on the development of protective tariffs. As markets were extended, the desire to control them increased, and opportunities for rivalry and friction grew.

CAUSES OF STRUGGLE

The struggle that resulted was one whose intensity may be attributed to four leading causes. The first was the closer contact of the rival commercial and industrial interests in many parts of the world. Instead of exploiting widely separated countries, the representatives of the rival nations found themselves facing each other in many different regions. In Persia, in Egypt, in Manchuria and elsewhere, contacts were closer than ever before.

A second influence was the large amounts of capital involved in these great operations. Sums hitherto unheard of were at stake, and the control of these vast amounts of wealth was

concentrated to an important degree in the hands of a few groups. Modern banking and investment methods resulted in a somewhat wider distribution of ownership, but the actual control of the funds rested chiefly with a relatively few men in London, New York, Paris, Berlin and Vienna. This volume of capital, closely concentrated, gave an intensity of feeling to the rival groups that exceeded anything previous.

A third influence was the size of the plants that rapidly developed. Large-scale production increased by leaps and bounds. The existence of a large plant very definitely brings about certain results because of the importance of uninterrupted operation. Any irregularities mean periods of unemployment with frequent labor disturbances, and executives are usually anxious not to have unnecessary difficulties with their employes. A large establishment has many "overhead" expenses which must be met even if the plant is not in operation, and consequently the managers of such an enterprise are anxious not to operate on part time or to shut down entirely. The large volume of goods turned out can not all be sold to advantage at home, and foreign markets are eagerly sought. Preferential treatment in these markets is desired and often secured and as a result, bad feeling between rival groups is frequently developed. Large quantities of raw materials in regular supply are demanded to keep the factories in operation. Coal, iron, cotton, wool, rubber and lumber are illustrations. Control over these sources of supply becomes important. If these commodities are located in other countries, an attempt to secure this control may lead to serious controversies. Along with the shift of population from country to town and the relative decline of agri-

culture, foodstuffs are imported for home populations in larger and larger quantities, and dependence on outside sources of supply increases with a consequent desire to control these sources.

A fourth reason for the intensity of the struggle is to be found in the corporate form of organization which grew so rapidly in the nineteenth century. Its advantages are numerous, and need not be listed here. Some of its features, however, encourage intense rivalry. The real owners of a given corporate property are the stockholders and bondholders while the management is in the hands of officers and directors. The owners are not closely informed regarding methods and practices followed by the corporation, and are frequently indifferent to them, provided they secure regularly their interest and dividends. This very fact places on the officers and directors a very heavy pressure. Bondholders and stockholders are very critical if their income is cut off, and are quick to blame the officers and directors in charge. This pressure is at times heavy, and helps to explain many questionable corporate practices in international as well as in domestic transactions.

FORMS OF STRUGGLE

With these influences operating to make the international conflict intense, the struggle took four different forms. The first of these was hostile tariffs and tariff wars. Illustrations are numerous, but outstanding among them may be cited the tariff war between Austria-Hungary and Roumania from 1886 to 1890, and the one between France and Italy in 1890.

Second in the list may be mentioned the scramble for concessions. Rival groups, usually representing different countries, engaged in a struggle to secure concessions for the construction

of railroads, the development of mines, the cutting down of forests and the building of docks, all to be developed under contract with the granting government. While the risks in many of these enterprises were great, the value of the concessions was often enormous.

Third, closely associated with the securing of these concessions came the development of spheres of influence, and the process known as peaceful penetration. By an agreement explicit or tacit, the commercial interests of any one country are allowed by those of other countries a somewhat free hand in securing concessions in particular areas. These areas are known as spheres of influence. They have been clearly recognized in China. In 1907, England and Russia came to a very definite agreement over their respective spheres of influence in Persia. In later years, Germany considered Turkey as peculiarly within her sphere.

Fourth, may be mentioned methods of international financing. Loans made by the nationals of any country to the government, corporations or individuals of another country, are often a source of great profit. This gain arises in part through the rate of interest which is often sufficiently high to be of significance, and also through the gains to the banking syndicates who finance the loans through their sale of the securities to other parties. Because of the great profits frequently secured in this manner, rivalry between the banking houses of various leading countries was keen. Loans were often made for industrial or other productive purposes, but often they were for distinctly military uses, and in some cases the funds borrowed were squandered in royal extravagances. It has been frequently argued that the terms on which the loans were made are indicative of the risk involved. While this is true, it is

somewhat offset by the fact that the governments whose nationals advanced funds often brought pressure to bear on the borrowers to keep up payments. In case the debtor was slow in meeting his obligations, pressure was brought to bear on him and his government by the government of the country in which the creditor resided, a practice which seems to have originated with England, and has become a commonplace in international financing in recent years.

Along with this international financing, the borrowing country frequently contracts to buy supplies and to accept expert engineers from the country furnishing the funds, and often also accepts a financial advisor or advisors from the same source. This insures the purchase of supplies in the lending country with consequent gains to the manufacturers who furnish them.

The effects of this intense rivalry which appeared in these different forms were a scramble for colonial possessions and other difficulties which finally reached their climax in 1914. Throughout the period much injustice was done to the natives of the exploited countries, who were compelled to pay high taxes and otherwise bear heavy burdens; battleships, guns and ammunition were frequently sold by the corporations of a country to potential enemies. In general, the effect was to develop an ill-feeling that encouraged war and finally brought it about.

PLACES OF CONFLICT

A few words should be said about the places of conflict. In the eighteenth century and earlier colonies were desired by the countries of Europe on the assumption that they made the mother country economically independent, and helped to secure a favorable balance of trade. That these advantages were actual is not entirely

clear, but beginning in the latter part of the eighteenth century the situation was rapidly changed. The American Revolution took from Britain her thirteen American colonies; Portugal lost Brazil; and Spain gradually lost her American territories to Great Britain and the United States. Then came a reaction against colonization, and as late as 1870 the situation may be summarized by saying that "the New World had been discovered, colonized and Europeanized, but most of it lost." Little progress had been made in colonizing Asia, except by Great Britain in India, Holland in the Malay Archipelago, Spain in the Philippine Islands and Russia in Siberia. Still less progress had occurred in Africa. By 1884, England, France, Portugal and Spain were in possession of certain areas, but most of the continent was still under native control. Reference should, of course, be made to the ownership of Australia by Great Britain, and to the ownership by various powers of numerous islands scattered in all parts of the globe.

In the latter part of the nineteenth century colonial interest revived under the stimulus of religious, patriotic and economic motives, the economic motives being of a sort that have already been indicated in the earlier part of this article. The desire for markets, raw materials and foodstuffs; the fact that some colonies tended to discriminate in commercial policies in favor of the mother country (as for example, Canada in 1898 and the French colonies in 1892); the opportunities afforded to individuals for economic gain through investments in colonial areas; and finally, the belief that colonies are thought to afford an outlet for surplus population, all contributed.

The fact that some of these ideas were perhaps inaccurate would carry

more weight were it not for the further fact that they were so thoroughly believed. It may be that people emigrate to better themselves, and do not necessarily go to the colonies of their own home country. It is true that France had a declining birth-rate, and that emigration from Germany in later years was relatively slow. Nevertheless, these ideas regarding the advantages of colonial expansion were prevalent.

The fields of expansion were chiefly in Asia and Africa, and only a few need be referred to. Great Britain's interests in South Africa resulted in the Boer War; the conflicting interests of the French and the British in Egypt almost precipitated a conflict between their respective countries at the time of the Fashoda incident. England, France, Germany and Spain almost came to a clash over Morocco. In Asia, Japan dominated over China in war during the nineties, and fought against Russia successfully ten years later. England and Russia barely avoided a conflict by their agreement over Persia in 1907, war being averted only because of their mutual distrust of Germany. The Near East, which was the center of so much rivalry, was the spot where the conflict of interests finally precipitated the Great War.

CHANGES SINCE THE WAR

What change has come during and since the war? Are there grounds for feeling that the difficulties now are largely eliminated, or is the conflict apparently continuing? The recital of a few facts may help to answer the question.

That the countries of the world are ready to handle their tariff problems in a more conciliatory manner does not seem clear. In the earlier years of the war there occurred a number of incidents of significance. Pan-German

writers, under the leadership of such men as Rohrbach and Naumann, presented to their countrymen daring schemes of organization designed to make of Germany, Austria, Turkey and the Balkan States a powerful union. This union was to be bound together by a system of preferential tariffs in opposition to the rest of the world. On the Allied side came the Paris Economic Conference of June, 1916, at which were passed resolutions never formally approved by the countries represented, but which reflected the ideas of powerful groups within each of them. These resolutions brought a quick reaction in Germany, the leaders of that country declaring that the Paris Economic Conference confirmed all that they had been saying about the hostile intent of the Allies toward German economic life.

Among the committees appointed by the British Government to analyze and report on British policy following the war was the Committee on Industrial and Commercial Policy After the War, under the chairmanship of Lord Balfour of Burleigh. While the report of this committee was by no means clear-cut in favor of either free trade or protection, it emphasizes the latter view sufficiently to mark it as a change from the British outlook of the later nineteenth century. Paralleling these activities came the attempts of the British through Orders in Council to place restraints on the importation of goods into that country.

A few words of explanation may make clear the underlying reasons for the change in the British attitude. When England accepted free trade as her guiding principle in the middle of the nineteenth century, she was dominant in the industrial world. She had passed through the Industrial Revolution earlier than had the other European countries, and had quickly

gained a position of undoubted leadership. It was not until the latter part of the nineteenth century that this was seriously challenged. By that time the rapid growth of Germany and the United States had weakened her position in many directions. She began to feel the effects of their competition, not only in her foreign markets, but also at home, where American and German goods began to be sold. As a reaction from this, there came a revival of protectionist ideas about 1900, the movement being led by Joseph Chamberlain. Partly because the English people did not approve the abandonment of free trade, and partly because Mr. Chamberlain was associated in the minds of many with the conflict in South Africa, he lost, and resigned from office in 1903. The growth of a strong national feeling during the war and the present prospect of the dumping of German goods on British markets has given another stimulus to the "tariff reform" movement. It is not possible at this time to predict in any way the outcome.

In France patriotic feeling has run high, and along with it has been the conviction that the industrial interests of northern France prostrated by the war must be given an opportunity to recover. Attempts at restricting imports have, however, been accompanied by a great increase in the cost of living, which has jeopardized the position of the French Government. Whenever imports have been allowed to enter freely, French exchange has fallen so abruptly in the world's markets as to create problems of a still different character. In the United States there have, for somewhat similar reasons, appeared revivals of tariff discussions. The return of the Republicans to power under the leadership of men who are avowed believers in a high tariff, and the introduction of legislation

designed to furnish protection to the farmers and other interests who are suffering from falling prices, illustrate the tendency referred to.

THE NEW CONCESSIONS

Turning from the revival of tariff agitation to the struggle for concessions, we find a renewal of the old methods. Rival groups seek the favor of successive governments in Mexico; the British are declared to be seeking the privilege of building railroads in Persia; a world-wide scramble for oil is under way and an American financier returns from Russia with the story of enormous concessions from the government of that country. Concession-seeking seems not to have subsided, but to be as vigorous as ever. Perhaps it is no longer so dangerous, but already reports are numerous regarding differences of opinion among rival groups.

But how about peaceful penetration and spheres of influence? If we turn to the old places of controversy where adjustments have not clearly been made, what do we discover? Fifteen years ago Russia and Japan were at war because of their differences in eastern Siberia. Today, Japan is retaining control over a large section of former Russian territory in this very region, and only a confirmed optimist would take the view that another clash will not result.

In 1907, war between Great Britain and Russia was narrowly averted because of their differences in Persia, an adjustment finally being reached by the establishment of a sphere of influence in Persia for each of the two countries, these spheres including the larger and richer parts of that unhappy land. What is the situation there today? The war was hardly over and the Peace Treaty not yet completed before England negotiated a new

treaty with Persia. Like all such treaties there is nothing sinister in its terms, but it closely resembles previous agreements that were but preludes to complete economic and political control. At present writing the Persian parliament has not ratified this treaty, although it was signed nearly two years ago. In the meantime, the historic conflict in this region between the Russians and the British is continuing.

In the Near East Great Britain has assumed rights in Mesopotamia in a manner that has brought vigorous protests from the United States. France, Italy and Great Britain have signed an agreement clearly marking out spheres of influence for the first two in Asiatic Turkey. Great Britain's sphere is not defined in this treaty, but many have inferred that it includes all of Turkey not specifically assigned to France and Italy. Old rivalries and jealousies are in evidence, the chief change seeming to be the disappearance of Germany and the appearance of the United States.

ATTITUDE OF THE UNITED STATES

But what of the attitude of the United States toward other questions than that of oil in Mesopotamia? By the passage of the Webb-Pomerene Act we declared our intention to participate vigorously in a struggle for world trade, and then endeavored to carry the idea more fully into effect with the Edge Act. Having built a great fleet of merchant vessels to meet a world need, we now propose to use that fleet to further our own interests. Agitation for more restricted immigration, insistence upon higher tariffs and even the suggestion that American vessels be exempted from paying tolls when going through the Panama Canal, are among the measures being urged.

To recite these movements and to indicate their nationalistic tone is not

sweepingly to condemn them. Nevertheless as urged they are contradictory and dangerous, and are being pressed with a vigor that indicates we have now joined the other leading powers of the world in a struggle that may well be more intense and more destructive than the one culminating in 1914.

Reasons for the renewal of these struggles are not hard to find. For the most part they are the same as in the past, differing chiefly in their greater intensity. Raw materials are more needed than ever before, the necessity for markets is imperative, and food-stuffs must be secured.

NEW FORCES

Two influences are somewhat new. Prices fell abruptly in 1920 and are still on their way down. With depression upon us, with unemployment acute, the struggle will probably become more bitter than ever. Falling prices accentuate the difficulty.

The second new influence is the greater importance of the governmental rôle. In the past the contest was largely between individuals, corporations and groups of one country and those of another. As time passed governments interested themselves more and more, giving aid to their nationals directly and indirectly. Yet it was only in Germany that the part of the government was highly developed. In that country economic life was closely unified. Combinations were encouraged, manufacturers united their efforts to develop export trade, the banks coöperated in every possible way, and above all the government approved and actively assisted. Under its leadership and control the entire economic life of the country was organized and directed to the advancement of Germany in world affairs. Today the other countries of the world are organizing in a similar manner.

The contest is on a larger scale and whole countries are organized. The struggle is less between individuals and groups of different countries, but between nations.

Such an analysis is a discouraging one, but fortunately there are grounds for a more optimistic view. International movements are growing in importance. The League of Nations comes first to mind, but it is only one

of many. There are numerous organizations and movements of international scope and influence. Consortiums of capitalists, international labor organizations, shipping conferences and agreements are illustrations that can not be multiplied nor analyzed within the limits of this article. Fortunately, they are operating to offset the dangers that have been treated more fully. It is a race against time.